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UNITED STATES
POSTAL REGULATORY COMMISSION
Washington, D.C. 20268-0001

FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended JUNE 30, 2015
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Transition Period from ________to________

Commission File Number: N/A

UNITED STATES POSTAL SERVICE

(Exact name of registrant as specified in its charter)

Washington, D.C.	41-0760000
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
475 L'Enfant Plaza, S.W. Washington, D.C.	20260
(Address of principal executive offices)	(ZIP Code)

(202) 268-2000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐ Not Applicable ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Not Applicable ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of shares of common stock held by non-affiliates as of June 30, 2015: N/A

The number of shares of common stock outstanding as of August 7, 2015: N/A

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

United States Postal Service
Statements of Operations
(Unaudited)

(in millions)	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Nine Months Ended June 30, 2015	Nine Months Ended June 30, 2014
Revenue				
Operating revenue	$ 16,520	$ 16,495	$ 52,200	$ 51,175
Other revenue	35	9	86	50
Total revenue	**16,555**	**16,504**	**52,286**	**51,225**
Operating expenses				
Compensation and benefits	11,609	11,272	35,617	34,667
Retiree health benefits	2,209	2,181	6,598	6,504
Workers' compensation	(624)	933	868	1,955
Transportation	1,584	1,605	4,977	4,972
Other operating expenses	2,323	2,430	6,914	7,188
Total operating expenses	**17,101**	**18,421**	**54,974**	**55,286**
Loss from operations	**(546)**	**(1,917)**	**(2,688)**	**(4,061)**
Interest and investment income	6	6	18	18
Interest expense	(46)	(44)	(138)	(138)
Net loss	**$ (586)**	**$ (1,955)**	**$ (2,808)**	**$ (4,181)**

See accompanying notes to the unaudited financial statements.

United States Postal Service
Balance Sheets

(in millions)	June 30, 2015	September 30, 2014
	(Unaudited)	
Current Assets		
Cash and cash equivalents	$ 7,148	$ 4,906
Restricted cash	245	246
Receivables, net	913	930
Supplies, advances and prepayments	129	122
Total current assets	**8,435**	**6,204**
Property and equipment, net	15,855	16,338
Other assets	413	420
Total assets	**$ 24,703**	**$ 22,962**
Current Liabilities		
Compensation and benefits	$ 2,480	$ 1,506
Retiree health benefits	26,695	22,417
Workers' compensation costs	1,383	1,320
Payables and accrued expenses	1,853	2,023
Deferred revenue-prepaid postage	3,206	3,064
Customer deposit accounts	1,156	1,191
Other current liabilities	1,098	1,221
Debt	10,100	9,800
Total current liabilities	**47,971**	**42,542**
Workers' compensation costs, net of current portion	16,536	17,102
Employees' accumulated leave, net of current portion	1,986	1,982
Other noncurrent liabilities	1,449	1,467
Debt, net of current portion	4,900	5,200
Total liabilities	**72,842**	**68,293**
Net Deficiency		
Capital contributions of the U.S. Government	3,132	3,132
Accumulated deficit since 1971 reorganization	(51,271)	(48,463)
Total net deficiency	**(48,139)**	**(45,331)**
Total liabilities and net deficiency	**$ 24,703**	**$ 22,962**

See accompanying notes to the unaudited financial statements.

United States Postal Service
Statements of Cash Flows
(Unaudited)

(in millions)	Nine Months Ended June 30, 2015	Nine Months Ended June 30, 2014
Cash flows from operating activities:		
Net loss	$ (2,808)	$ (4,181)
Adjustments to reconcile net loss to cash provided by operations:		
Depreciation and amortization	1,313	1,390
(Gain) loss on disposals of property and equipment, net	(53)	50
Decrease (increase) in other assets	7	(30)
(Decrease) increase in noncurrent workers' compensation	(566)	598
Decrease in noncurrent deferred appropriations and other revenue	(6)	(15)
Increase (decrease) in other noncurrent liabilities	18	(55)
Changes in current assets and liabilities:		
Receivables, net	17	124
Other assets	(7)	(4)
Retiree health benefits	4,278	4,225
Payables, accrued expenses and other	839	793
Deferred revenue-prepaid postage, prepaid box rents and other	70	266
Net cash provided by operating activities	**3,102**	**3,161**
Cash flows from investing activities:		
Funds released from restricted cash	1	39
Purchases of property and equipment	(880)	(512)
Proceeds from sales of property and equipment	65	43
Net cash used in investing activities	**(814)**	**(430)**
Cash flows from financing activities:		
Issuance of notes payable	5,300	4,700
Payments on notes payable	(5,300)	(4,700)
Payments on capital lease obligations and other	(46)	(107)
Net cash used in financing activities	**(46)**	**(107)**
Net increase in cash and cash equivalents	2,242	2,624
Cash and cash equivalents at beginning of period	4,906	2,326
Cash and cash equivalents at end of period	**$ 7,148**	**$ 4,950**
Supplemental cash flow disclosures:		
Cash paid for interest	$ 137	$ 142

See accompanying notes to the unaudited financial statements.

Notes to Financial Statements (Unaudited)

NOTE 1 - BASIS OF PRESENTATION

Background

On July 1, 1971, the United States Postal Service (the "Postal Service") began operations in accordance with the provisions of the *Postal Reorganization Act,* which established it as an "independent establishment of the executive branch of the Government of the United States." It succeeded the cabinet-level Post Office Department which was established in 1792. The Postal Service does not receive tax dollars for operating expenses and relies solely on the sale of postage, products and services to fund its operations.

The *Postal Accountability and Enhancement Act*, Public Law 109-435 ("PAEA"), classifies Postal Service "products" into two broad categories: Market-Dominant and Competitive "products." However, the term "services" is used in this document for consistency with other descriptions of "services" offered by the Postal Service. These services are sold by approximately 32,000 post offices, stations and branches, plus a large network of Contract Postal Units, Community Post Offices, Village Post Offices, commercial outlets which sell stamps and services on the Postal Service's behalf, as well as on its website www.usps.com.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of the U.S. Securities and Exchange Commission ("SEC") Regulation S-X. These financial statements should be read in conjunction with the Postal Service's financial statements for the year ended September 30, 2014, included in its Annual Report on Form 10-K ("Annual Report") filed with the Postal Regulatory Commission ("PRC") on December 5, 2014, and do not include all information and footnotes which are normally included in the Annual Report. Except as otherwise specified, all references to years are to the fiscal years beginning October 1 and ending September 30, and quarters are quarters within fiscal years 2015 and 2014.

In the opinion of management, the accompanying unaudited interim financial statements reflect all material adjustments, including recurring adjustments, necessary to fairly present the financial position as of June 30, 2015, the results of operations for the three and nine months ended June 30, 2015, and 2014 and the cash flows for the nine months ended June 30, 2015, and 2014. Operating results for the three and nine months ended June 30, 2015, are not necessarily indicative of the results to be expected for the year ended September 30, 2015. Subsequent events have been evaluated through the date the Postal Service filed its Form 10-Q for the quarter ended June 30, 2015, with the PRC.

The Postal Service has significant transactions with other U.S. government entities. These are more fully discussed in *Note 3 - Related Parties*.

Recent Accounting Standards

ASU 2014-09

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09 *Revenue from Contracts with Customers* ("ASU 2014-09"). The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. As originally issued, ASU 2014-09 was effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption not permitted.

In July 2015, the FASB voted for a one-year deferral of the effective date of the standard to annual reporting periods beginning after December 15, 2017, with an option that would permit reporting entities to adopt the standard as early as the original effective date. The new standard may be adopted either retrospectively or on a modified retrospective basis whereby the new standard would be applied to new and existing contracts with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to beginning retained earnings or net deficiency at the effective date for existing contracts with remaining performance obligations. In addition, the FASB is contemplating making changes to certain elements of the new standard. The Postal Service is currently evaluating the impact of adopting this standard on its financial statements, which is not known or reasonably estimable at this time.

ASU 2014-15

In August 2014, the FASB issued Accounting Standards Update 2014-15 *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). The new standard requires an entity to perform interim and annual assessments of its ability to continue to meet obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. The Postal Service does not believe the adoption of the new standard will have a significant impact on its reported disclosures.

NOTE 2 - LIQUIDITY

The Postal Service generates its cash almost entirely through the sale of postal services. It holds its cash with the Federal Reserve Bank of New York and invests its excess cash, when available, in highly-liquid, short-term investments issued by the U.S. Department of Treasury.

As of June 30, 2015 and September 30, 2014, the Postal Service held unrestricted cash and cash equivalents of $7.1 billion and $4.9 billion, respectively. Within one week after June 30, 2015, approximately $1.7 billion of regularly-scheduled payroll was disbursed, reducing the cash and cash equivalents balance.

Debt

The Federal Financing Bank ("FFB"), a government-owned corporation under the general supervision of the Secretary of the Treasury, holds all of the Postal Service's debt, which consists of two revolving credit facilities and fixed-rate notes with various maturities. The aggregate principal balance of debt outstanding was $15.0 billion as of June 30, 2015, and September 30, 2014, which is the maximum borrowing amount allowed under the Postal Service's statutory debt ceiling. The Postal Service has reported $15.0 billion in outstanding debt each quarter since September 2012.

The two revolving credit facilities referenced above have interest rates determined by the U.S. Department of Treasury each business day and enable the Postal Service to draw up to $4.0 billion in total. As of June 30, 2015, and September 30, 2014, these facilities were fully drawn and were included in the current portion of debt. These facilities mature on April 19, 2016, and are generally renewed annually.

Liquidity Concerns

The Postal Service is constrained by laws and regulations which restrict its revenue sources, and, as noted above, it has reached the borrowing capacity under its statutory debt ceiling. Although cash balances have increased from 2014 amounts, they remain insufficient to support an organization with approximately $73 billion in annual operating expenses.

The Postal Service incurred net losses of $586 million and $2.8 billion for the three and nine months ended June 30, 2015, respectively, and has incurred cumulative net losses of $54.5 billion since 2007. As a result of these losses and its liquidity concerns, the Postal Service does not have sufficient cash balances to meet all of its existing legal obligations, pay down its debt or make critical investments in its infrastructure that were deferred in recent years.

Mail Migration to Alternatives

A significant factor contributing to Postal Service losses is the ongoing decline in the volume of First-Class Mail, which generates a higher contribution than other classes of mail. This decline is largely the result of the ongoing effects of the Great Recession, as well as changes in consumers' and businesses' use of mail resulting from the continuing migration to electronic communication and transactional alternatives, which was exacerbated by the Great Recession. This is compounded by the increase in the number of delivery points, which, when combined with the impact of the reduction in hard-copy mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from 5.5 pieces in 2007 to 3.8 pieces in 2014, a decline of 31%.

Expiration of Exigent Surcharge

In December 2013, the PRC ruled that the Postal Service could collect an exigent surcharge on Market-Dominant products beginning in January 2014, until such time as the exigent surcharge produces $3.2 billion in incremental revenue, a figure that the PRC determined was lost due to the Great Recession's suppression of mail volume. This incremental revenue is in addition to revenue that the Postal Service would generate solely from a 1.7% price increase based on the Consumer Price Index for All Urban Consumers ("CPI-U").

The Postal Service appealed the PRC's decision to the U.S. Court of Appeals for the District of Columbia ("Court") arguing that the PRC attributed far too little mail volume lost due to the Great Recession and that the exigent surcharge should remain in effect indefinitely. In June 2015, the Court ruled on the appeal and remanded the case back to the PRC for further review, primarily related to the PRC's methodology for calculating mail volume lost due to the Great Recession. Although the Court largely upheld the PRC's analytical framework, it vacated one key aspect of the methodology for calculating mail volume lost due to the Great Recession and suggested the PRC reconsider another element of its methodology.

On July 29, 2015, the PRC announced that it has authorized the Postal Service to collect an additional $1.4 billion in revenue as an exigent surcharge, bringing the total exigent surcharge to approximately $4.6 billion in revenue. Because of this extension, the exigent surcharge will remain in place longer than previously reported.

Business Model Challenges/Constraints

The Postal Service continues to incur significant losses, in part due to the PAEA-mandated Postal Service Retiree Health Benefits Fund ("PSRHBF") prefunding requirement. Such a requirement to prefund retiree healthcare obligations is not imposed on most other federal entities or private-sector businesses that offer retiree health benefits. In addition to the $22.4 billion of prefunding payments that were due but not paid since 2012, the Postal Service accrued expenses of $1.4 billion and $4.3 billion for the three and nine months ended June 30, 2015, respectively, for its required prefunding payment of $5.7 billion due by September 30, 2015. As of the date of this report, the Postal Service has not incurred any penalties or negative consequences as a result of not making the PSRHBF prefunding payments. In addition to the prefunding requirement, the Postal Service continues to pay the employer share of health insurance premiums for its retirees, which was $784 million and $2.3 billion during the three and nine months ended June 30, 2015, respectively.

With the exception of the exigent surcharge discussed above, Market-Dominant services, which account for approximately 76% of the Postal Service's annual operating revenues, are subject to a price cap based on the CPI-U. While the vast majority of revenues are constrained by the price cap, costs are not statutorily constrained. Contractual obligations granting cost-of-living adjustments ("COLA") and general wage increases, along with increases in costs for mandatory federal benefits programs, such as retiree health and retirement benefits, have continued to escalate expenses. Increases in retirement costs and retiree health benefits are expected to add approximately $600 million to 2015 annual expenses. Although 2016 is the final year of statutorily-fixed amounts of prefunding payments, the statute requires that the Office of Personnel Management ("OPM") perform an actuarial valuation no later than 2017 to determine if additional payments into the PSRHBF are required, and if so, the OPM must design an amortization schedule under which the Postal Service must fully fund any remaining liability by 2056.

Mitigating Circumstances

The Postal Service's status as an independent establishment of the executive branch that does not receive tax dollars for its operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual revenue of approximately $68 billion, a financially-sound Postal Service continues to be vital to U.S. commerce.

The U.S. economy benefits greatly from the Postal Service and the many businesses that provide the printing and mailing services that it supports. Disruption of the mail would cause undue hardship to businesses and consumers, and in the event of a cash shortfall, the U.S. government would likely prevent the Postal Service from significantly curtailing or ceasing operations. The Postal Service continues to inform the Administration, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges it faces and the legislative changes that are required to restore its financial stability.

NOTE 3 - RELATED PARTIES

As disclosed throughout this report, the Postal Service conducts significant transactions with other U.S. government entities, which are considered related parties.

Related-party receivables and advances were $74 million and $90 million as of June 30, 2015, and September 30, 2014, respectively, and are included in *"Receivables, net"* in the accompanying Balance Sheets. As discussed in greater detail in *Note 9 - Fair Value Measurement*, the carrying amount of the revenue forgone receivable was $413 million and $420 million as of June 30, 2015, and September 30, 2014, respectively, and is included within "*Other assets*" in the accompanying Balance Sheets.

As discussed in greater detail in *Note 2 - Liquidity*, the Postal Service's debt, borrowed from the FFB, was $15.0 billion as of June 30, 2015, and September 30, 2014. Excluding the $10.1 billion and $9.8 billion current portions of debt, related-party current liabilities, which include the PSRHBF obligations discussed in *Note 7 - Health Benefit Plans*, were $28.7 billion and $23.9 billion as of June 30, 2015, and September 30, 2014, respectively. Excluding the $4.9 billion and $5.2 billion noncurrent portions of debt, related-party noncurrent liabilities were $16.6 billion and $17.2 billion as of June 30, 2015, and September 30, 2014, respectively.

Related-party operating revenue from other U.S. government entities was $244 million and $243 million for the three months ended June 30, 2015, and 2014, respectively. Related-party operating revenue was $739 million and $672 million for the nine months ended June 30, 2015, and 2014, respectively. These items are included within "*Operating revenue*" in the accompanying unaudited Statements of Operations.

Related-party operating expenses, consisting primarily of benefits, retiree health benefits and workers' compensation, were $4.6 billion and $4.3 billion for the three months ended June 30, 2015, and 2014, respectively. Related party operating expenses were $13.4 billion and $12.9 billion for the nine months ended June 30, 2015, and 2014, respectively. These items are included within "*Operating expenses*" in the accompanying unaudited Statements of Operations.

Related-party interest income, either imputed on revenue forgone or generated on cash and equivalents held with the Federal Reserve Bank of New York or short-term investments in U.S. Treasury instruments, was $6 million for each of the three months ended June 30, 2015, and 2014. Related party interest income was $17 million for each of the nine months ended June 30, 2015, and 2014. These items are included within *"Interest and investment income"* in the accompanying unaudited Statements of Operations.

Related-party interest expense, payable on debt issued to the FFB, was $46 million and $45 million for the three months ended June 30, 2015, and 2014, respectively. Related-party interest expense was $135 million and $137 million for the nine months ended June 30, 2015, and 2014 respectively. These items are included within *"Interest expense"* in the accompanying unaudited Statements of Operations.

NOTE 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment, net, are recorded at cost, which includes the interest on borrowings used to pay for the construction of major capital additions, less allowances for depreciation and amortization. Interest capitalized during both the three and nine months ended June 30, 2015, and 2014, was not significant. Property and equipment, net, are depreciated over estimated useful lives that range from 3 to 40 years using the straight-line method.

Assets classified as held for sale were approximately $79 million and $97 million as of June 30, 2015, and September 30, 2014, respectively, and are included within "*Property and equipment, net*" in the accompanying Balance Sheets. Impairment charges were de minimis for both the three and nine months ended June 30, 2015, and 2014. Depreciation and amortization expense was $444 million and $461 million for the three months ended June 30, 2015, and 2014, respectively. Depreciation and amortization expense was $1.3 billion and $1.4 billion for the nine months ended June 30, 2015, and 2014, respectively. These items are included within "*Other operating expenses*" in the accompanying unaudited Statements of Operations.

Deferred gains on sales of property are recognized in income and the assets sold are removed from the accounting records when arrangements requiring continued Postal Service involvement in the properties, such as lease-backs, have expired. Deferred gains recognized in income were approximately $7 million and de minimis for the three months ended June 30, 2015, and 2014, respectively. Deferred gains recognized in income were $44 million and de minimis for the nine months ended June 30, 2015, and 2014, respectively. These items are included within "*Other revenue*" in the accompanying unaudited Statements of Operations.

NOTE 5 - CONTINGENCIES

Contingent liabilities of the Postal Service consist primarily of claims and lawsuits resulting from labor, employment and environmental matters, property damage claims and injuries on Postal Service properties and issues arising from Postal Service contracts, personal claims and traffic accidents. Each quarter, significant new claims and litigation are evaluated for the probability of an adverse outcome. If the claim is deemed probable of an unfavorable outcome and the amount of the potential resolution is reasonably estimable, a liability for the loss is recorded. Any pre-existing claims and litigation are reviewed and adjusted for resolutions or revisions to prior estimates.

Based on available information, the Postal Service has made adequate provision for probable losses arising from all claims and lawsuits. The current portion of the contingent liability was $138 million and $158 million at June 30, 2015, and September 30, 2014, respectively, and is included within "*Payables and accrued expenses*" in the accompanying Balance Sheets. The noncurrent portion of this liability was $789 million and $776 million at June 30, 2015, and September 30, 2014, respectively, and is included within "*Other noncurrent liabilities*" in the accompanying Balance Sheets.

As of June 30, 2015, contingent liabilities consisted of $847 million associated with labor and employment matters, $43 million with asset retirement obligations, $33 million with tort matters and $4 million with contractual matters, for a total of $927 million. As of September 30, 2014, contingent liabilities consisted of $839 million associated with labor and employment matters, $48 million with asset retirement obligations, $45 million with tort matters and $2 million with contractual matters, for a total of $934 million.

In addition to the amounts accrued in the financial statements, the Postal Service has claims and lawsuits which it deems reasonably possible of an unfavorable outcome, which ranged from $325 million to $950 million at June 30, 2015, and $325 million to $925 million at September 30, 2014. No accruals for these reasonably possible losses have been recorded in the financial statements.

The Postal Service is from time to time involved in other litigation incidental to the conduct of its business, none of which is expected to be material to its business, financial condition or operations.

NOTE 6 - RETIREMENT PLANS

The majority of employees participate in one of two U.S. government pension programs, the Civil Service Retirement System ("CSRS") and the Federal Employees Retirement System ("FERS"), based on the starting date of their employment with the Postal Service or other U.S. government entity. As government-sponsored benefit plans, the CSRS and FERS are not subject to the provisions of the *Employee Retirement Income Security Act of 1974*, as amended. Likewise, because the Postal Service cannot direct the costs, benefits or funding requirements of these plans, program expenses are accounted for under multiemployer plan accounting rules. Contributions to the plans are recorded as an expense in the period in which the contribution is due.

Employee and employer contributions for the pension programs are administered by the OPM. As required by law, the Postal Service's contribution rates were determined to be 13.2% and 11.9% of base salary for most current FERS employees for 2015 and 2014, respectively.

PAEA suspended the Postal Service's contributions to CSRS that would otherwise have been required under Title 5, Section 8334(a)(1) of the United States Code until 2017. At that time, the OPM will determine whether additional funding is required for the benefit of the Postal Services' CSRS retirees. As a result, the Postal Service's employer contribution rate for CSRS was zero for the three and nine months ended June 30, 2015, and 2014.

Employees may also participate in the Thrift Savings Plan ("TSP"), a defined contribution retirement savings and investment plan administered by the Federal Retirement Thrift Investment Board. The Postal Service is required to contribute to the TSP for FERS employees by contributing 1% of basic pay and to match voluntary employee contributions up to an additional 4% of basic pay.

The Postal Service's annual retirement expense, which includes the costs of FERS, TSP and the employer's share of Social Security taxes, amounts to approximately $6.2 billion. For the three months ended June 30, 2015, and 2014, retirement expenses were $1.6 billion and $1.4 billion, respectively. For the nine months ended June 30, 2015, and 2014, retirement expenses were $4.7 billion and $4.3 billion, respectively. Retirement expense is included within "*Compensation and benefits*" in the accompanying unaudited Statements of Operations.

NOTE 7 - HEALTH BENEFIT PLANS

Nearly all career employees are covered by the Federal Employees Health Benefits ("FEHB") Program, which covers both active and retired employees. Healthcare benefits are available to all participants who meet certain eligibility requirements. In addition to administering the program, the OPM allocates the cost of funding FEHB to its participating U.S. government employers. The Postal Service cannot direct the costs, benefits or funding requirements of the plans, and therefore accounts for program expenses using multiemployer plan accounting rules. Contributions to the plans are recorded as an expense in the period in which the contribution is due. Although the cost for health benefits is determined by the OPM, the allocation of health benefit costs between the Postal Service and most of its employees is determined through agreements with Postal Service unions.

Active Employees

The Postal Service paid approximately 75% and 76% of FEHB premium costs for current employees during the three months ended June 30, 2015, and 2014, respectively. It paid approximately 75% and 76% of the premium costs during the nine months ended June 30, 2015, and 2014, respectively. Postal Service employee healthcare expense was $1.2 billion and $3.6 billion for each of the three and nine months ended June 30, 2015 and 2014, respectively. These expenses are included within "*Compensation and benefits*" in the accompanying unaudited Statements of Operations.

Retirees

Employees who participate in the FEHB for the five years immediately preceding their retirement may receive benefits from the plan during their retirement. The Postal Service is required to pay a portion of retiree health insurance premiums, based on each employee's length of federal civilian service occurring after July 1, 1971, for retired employees who participate in the FEHB and who retired on or after that date, and their qualifying survivors. The Postal Service's share of premium costs for retirees and their qualifying survivors is set by law and is not subject to negotiation with the unions.

Since 2007, the PAEA has mandated the Postal Service to prefund retiree health benefits by depositing a fixed amount of funds each year into the PSRHBF through 2016. This prefunding requirement is not imposed on most U.S. government entities or private sector businesses to the extent they offer health benefits to retirees at all. The Postal Service has recorded $26.7 billion as a current liability in "*Retiree health benefits*" in the accompanying Balance Sheets as of June 30, 2015, representing payment defaults of $22.4 billion from 2012 through 2014, and $4.3 billion accrued as of June 30, 2015 related to the $5.7 billion payment due by September 30, 2015. The PAEA also obligates the Postal Service to make an additional annual payment of $5.8 billion by September 30, 2016.

Although PAEA dictates the annual prefunding requirements through 2016, these amounts and the timing of funding could change at any time with the enactment of a new law or the amendment of existing law. However, given its liquidity concerns, the Postal Service has and will likely continue to default on these prepayments in order to fulfill its other statutory obligations, including the obligation to provide universal mail service to the nation (as discussed in *Note 2 - Liquidity*). PAEA contains no provisions addressing a payment default.

The unfunded PSRHBF commitment, including past defaulted amounts and future obligations, totals $33.9 billion. Beginning in 2017, the Postal Service's share of the health insurance premiums for current and future Postal Service retirees will be paid from the PSRHBF. Although 2016 is the final year of statutorily-fixed amounts of prefunding payments, the statute requires that the OPM perform an actuarial valuation no later than 2017 to determine if additional payments into the PSRHBF are required. If this is the case, the OPM must design an amortization schedule under which the Postal Service will be required to fund the actuarially determined normal cost, plus any required amortization of the unfunded liability.

In addition to the prefunding requirement, the Postal Service continues to pay approximately $3.1 billion annually for the employer share of its retiree health insurance premiums. The expenses recorded for employer share of health insurance premiums were $784 million and $756 million for the three months ended June 30, 2015, and 2014, respectively, and $2.3 billion and $2.2 billion for the nine months ended June 30, 2015, and 2014, respectively.

NOTE 8 - WORKERS' COMPENSATION

Postal Service employees injured on the job are covered by the Federal Employees' Compensation Act ("FECA"), administered by the Department of Labor's ("DOL") Office of Workers' Compensation Programs ("OWCP"), which makes all decisions regarding injured workers' eligibility for benefits. The Postal Service reimburses the DOL for workers' compensation benefits paid to or on behalf of Postal Service employees, plus an administrative fee.

Workers' Compensation Liability

The Postal Service records a liability for its workers' compensation obligations for employees who have been injured and are eligible for benefits. To determine the fair value of the liability each quarter, the Postal Service first estimates the future total cost of workers' compensation claims based on the dates of claim-related injuries, frequency or severity of the injuries, the pattern of historical payments to beneficiaries, and the expected trend in future costs. The Postal Service then calculates the amount that would need to be invested at current interest rates to fully fund the future total cost of claims, and this calculated amount is the fair value of workers' compensation liability. Changes in the liability are primarily attributable to the combined impacts of routine changes in actuarial estimation, new compensation and medical cases, the progression of existing cases and changes in discount (interest) and inflation rates.

To determine the actuarial valuation of new and existing cases, the Postal Service uses an estimation model that combines four generally-accepted actuarial valuation techniques based upon past claim-payment experience and exposure to claims as measured by total employee hours worked. The discount and inflation rates used to calculate the present value of the future obligation are updated as of the Balance Sheet date and factored into the model. These inflation rates include long-term COLA rates for compensation claims and medical rates for medical claims.

The liability calculation is highly sensitive to changes in discount rates. For example, a 1% increase in the discount rate would decrease the June 30, 2015, liability and related expense by approximately $1.8 billion. Likewise, a 1% decrease in the discount rate would increase the June 30, 2015, liability and related expense by approximately $2.3 billion.

The following table presents the inflation and discount rates used to estimate the liability as of the dates noted:

	June 30, 2015	September 30, 2014
Compensation claims liability		
Discount Rate	2.6%	2.8%
Inflation Rate	2.7%	2.9%
Medical claims liability		
Discount Rate	2.6%	2.7%
Inflation Rate	6.0%	9.0%

The Postal Service's liability for workers' compensation was $17.9 billion and $18.4 billion at June 30, 2015, and September 30, 2014, respectively. The current portion of the liability was $1.4 billion and $1.3 billion at June 30, 2015, and September 30, 2014, respectively. On October 15, 2014, the Postal Service made its annual payment to the DOL of $1.4 billion, which reduced the liability by that amount.

Workers' Compensation Expense

The impacts of changes in discount rates and inflation rates, as well as the actuarial valuation of new cases and revaluation of existing cases, are components of total workers' compensation expense as recorded in the accompanying unaudited Statements of Operations. As described above, the Postal Service pays an administrative fee to the DOL, which is also a component of workers' compensation expense. The following table presents the components of workers' compensation expense for the three and nine months ended June 30, 2015, and 2014:

(in millions)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2015	2014	2015	2014
Impact of discount rate changes	$ (950)	$ 379	$ 268	$ 379
Actuarial valuation of new cases and revaluation of existing cases	309	537	549	1,525
Administrative fee	17	17	51	51
Total workers' compensation (benefit) expense	**$ (624)**	**$ 933**	**$ 868**	**$ 1,955**

Change in Estimate

The Postal Service revised the calculation used in its valuation model to determine the fair value of workers' compensation liability beginning in the first quarter of 2015. As of December 31, 2014, the impact of the change in estimate decreased the workers' compensation liability and corresponding expense for the three months ended December 31, 2014, by $353 million. This was considered a change in accounting estimate under GAAP. Management believes this change allows greater flexibility to select factors that reflect current injury trends and provides the best estimate of workers' compensation liability.

NOTE 9 - FAIR VALUE MEASUREMENT

The Postal Service defines fair value based on the price that would be received upon sale of an asset or the price that would be paid to transfer a liability between unrelated parties. The carrying amounts of the short-term financial instruments of the Postal Service, including cash, accounts receivable, accounts payable and accrued expenses, approximate fair value due to their short-term maturities. Noncurrent receivables and noncurrent debt are measured using inputs of the fair value hierarchy model described below. Property and equipment are stated at cost, less accumulated depreciation and amortization, and measured at fair value on a nonrecurring basis if impaired.

Measurement of assets and liabilities at fair value is performed using inputs from a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value. The fair value hierarchy described below consists of three broad levels, as defined in authoritative literature:

- *Level 1* inputs include unadjusted quoted prices in active markets for identical assets or liabilities as of the balance sheet date.
- *Level 2* inputs include observable data, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, observable data other than quoted market prices for the asset or liability (interest rates, yield curves, etc.) and inputs that are derived from, or corroborated by, observable market data.
- *Level 3* inputs include unobservable data that reflect current assumptions about the judgments and estimates that market participants would use when pricing the asset or liability. These inputs are based on the best information available, including internal data.

Considerable judgment is involved in developing these estimates and, accordingly, they may not necessarily be indicative of amounts that would be realized upon disposition of a specific asset or liability.

The fair values of the revenue forgone receivable and debt, each of which qualifies as a financial instrument in accordance with authoritative literature, are calculated using *Level 2 and Level 3* inputs, respectively. Because no active market exists for the Postal Service's debt with the FFB, the fair value of the noncurrent portion of this liability has been estimated using expected future payments at risk-adjusted discount rates provided by the FFB, a *Level 3* input.

Under the *Revenue Forgone Reform Act of 1993*, Congress agreed to reimburse the Postal Service $1.2 billion in 42 annual installments of $29 million through 2035, for services the Postal Service performed for other U.S. government entities during years 1991 through 1998. The Postal Service recognizes the imputed interest it is owed as interest and estimates the value of revenue foregone using the income approach, which converts future cash flows to a single discounted amount using an interest rate for similar assets, a *Level 2* input. To determine the fair value of this noncurrent asset, the Postal Service calculates a net present value of anticipated annual payments received, discounted by the 20-year Treasury Constant Maturity Rate, which was 2.83% and 2.98% as of June 30, 2015, and September 30, 2014, respectively.

For the periods ended June 30, 2015, and September 30, 2014, no transfers between *Level 1* and *Level 2* assets or liabilities took place. The carrying amounts and fair values of revenue forgone, which is included in "*Other assets*" in the accompanying Balance Sheets and the noncurrent portion of debt are summarized in the following table and are presented for disclosure purposes only.

(in millions)	June 30, 2015		September 30, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Revenue forgone	$ 413	$ 499	$ 420	$ 505
Debt, net of current portion	$ 4,900	$ 5,296	$ 5,200	$ 5,565

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Statements

The following *Management's Discussion and Analysis of Financial Condition and Results of Operations* and other parts of this report describe the principal factors affecting the financial results, liquidity, capital resources and critical accounting estimates of the United States Postal Service ("Postal Service," "USPS," "we," "our" and "us"). Our results of operations may be impacted by risks and uncertainties discussed here and in our Annual Report on Form 10-K for the year ended September 30, 2014 ("Annual Report") filed with the Postal Regulatory Commission ("PRC") on December 5, 2014. Such factors, many of which we cannot control or influence, may cause actual results to differ materially from those currently contemplated.

Our operating results for the three and nine months ended June 30, 2015, and 2014, are not necessarily indicative of the results to be expected for the year ended September 30, 2015, and should be read in conjunction with our Annual Report. All references to years in this report, unless otherwise stated, refer to fiscal years beginning October 1 and ending September 30. All references to quarters, unless otherwise stated, refer to quarters within fiscal years 2015 and 2014.

Forward-looking statements contained in this report represent our best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements are included in this report and use such words as "may," "will," "could," "expect," "believe," "plan," "estimate," "project" or other similar terminology. These forward-looking statements, which involve a number of risks and uncertainties, reflect current expectations regarding future events and operating performance as of the date of this report. We have no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Introduction

We commenced operations on July 1, 1971, as an "independent establishment of the executive branch of the Government of the United States" responsible for providing postal services to the nation. We succeeded the cabinet-level Post Office Department which was established in 1792. We do not receive tax dollars for operating expenses and rely solely on the sale of postage, products and services to fund our operations.

GOVERNANCE

Our eleven-member Board of Governors (the "Board") consists of our Postmaster General, Deputy Postmaster General and nine independent governors ("Governors"). The Governors are appointed by the President of the United States with the advice and consent of the United States Senate. The Postmaster General is appointed by the Governors, and the Deputy Postmaster General is appointed by the Governors and the Postmaster General.

The Board is required by law to have a quorum of six members in order to take action. In December 2014, due to the term expiration of one Governor and Senate inaction on pending nominees, the number of sitting Board members dropped to five, thereby rendering the Board unable to assemble a quorum. As described later in this document in *Legislative Update*, the Senate is currently considering five nominees to serve as Governors.

In November 2014, while the Board still had a quorum, it issued a resolution that established a Temporary Emergency Committee of the Board ("TEC") to exercise certain powers reserved to the Board during a period in which it is unable to assemble a quorum. The TEC consists of the remaining members of the Board and exercises those Board powers necessary for operational continuity. The TEC will continue in existence until the Board is again able to assemble a quorum. The establishment of the TEC was publicly announced in a Federal Register notice on December 16, 2014.

The Federal Register notice also announced a resolution issued by the Governors in November 2014 regarding the exercise of those powers conferred by law solely on the Governors, as distinguished from the full Board. Powers conferred solely upon the Governors include the appointment and removal of the Postmaster General and the establishment of prices and classifications for postal products. The Governors determined that the inability of the Board to assemble a quorum does not inhibit the Governors' authority to continue exercising their independent powers.

BUSINESS AND OPERATIONS

Under the *Postal Reorganization Act* and its successor, the *Postal Accountability and Enhancement Act*, Public Law 109-435 ("PAEA"), we have a legal mandate to offer a "fundamental service" to the American people "at fair and reasonable rates." We serve individual and commercial customers in the communications, distribution and delivery, advertising and retail markets throughout the nation and internationally. As a result, we maintain a very diverse customer base and are not dependent upon a single customer or small group of customers. No single customer represents more than 2.2% of operating revenue for the nine months ended June 30, 2015.

We fulfill our legal mandate to provide universal service at fair and reasonable prices by offering a variety of service classes without undue discrimination among our customers. Within each class of service, prices do not vary unreasonably by customer for the level of service provided. Prices and fees are determined by the Governors, subject to a review process by PRC. PAEA provides greater flexibility in the pricing of Competitive services, as discussed below.

PAEA classifies our products into two broad categories: Market-Dominant and Competitive "products." However, the term "services" is used in this document for consistency with other descriptions of "services" we offer. Price increases for those services classified as Market-Dominant are subject to a price cap based on the Consumer Price Index - All Urban Consumers ("CPI-U"). The legal requirements for Competitive services place no upper limit on price changes, but do set a price floor.

Throughout this document and in the day-to-day operations of the organization, we refer to our major service categories as the following: First-Class Mail, Standard Mail, Shipping and Packages, International, Periodicals and Other. Most services in the First-Class Mail, Standard Mail and Periodicals categories are considered Market-Dominant services. Shipping and Package Services and International Mail, which are predominantly Competitive services, include, but are not limited to, First-Class and Standard Mail Parcels, Priority Mail, Priority Mail Express, Parcel Select and Parcel Return Service, Bulk Standard Post and Bulk International Mail.

Services are sold by approximately 32,000 post offices, stations and branches, plus a large network of Contract Postal Units, Community Post Offices, Village Post Offices, commercial outlets which sell stamps and services on our behalf and through our website *www.usps.com*. Mail deliveries are made to approximately 155 million city, rural, PO Box and highway delivery points. Operations are conducted primarily in the domestic market, with international revenue representing approximately 4.2% of operating revenue for the nine months ended June 30, 2015.

We operate and manage a very extensive and integrated retail, distribution, transportation and delivery network. As such, we operate as one segment throughout the U.S., its possessions and territories. Expenses are incurred and managed by functional groupings that align with the integrated network structure. Reporting of expenses on a functional basis in this report conforms to the management and structure of expense incurrence within the organization.

Approximately 91% of career employees are covered by collective bargaining agreements. Our labor force is primarily represented by the American Postal Workers Union, AFL-CIO ("APWU"); the National Association of Letter Carriers, AFL-CIO ("NALC"); the National Postal Mail Handlers Union, AFL-CIO ("NPMHU") and the National Rural Letter Carriers Association ("NRLCA"). Additionally, we are required by law to consult with management associations representing supervisory and managerial employees and postmasters prior to making final decisions concerning changes to pay and benefits for such employees.

Contract negotiations with the APWU and NRLCA reached impasse following the expiration of their respective collective bargaining agreements on May 20, 2015. Pursuant to law, these matters may proceed to mediation and/or arbitration if no agreements are reached. The APWU matter has advanced to mediation, but the NRLCA has not yet proceeded to either mediation or arbitration. Existing terms for each contract remain in force until successor agreements are in place.

REGULATORY REPORTING

We are not a reporting company under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and are not subject to regulation by the Securities and Exchange Commission ("SEC"). However, the PAEA requires us to file with the PRC certain financial reports containing the information prescribed by the SEC under Sections 13 and 15(d) of the Exchange Act. These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, which are available at *http://about.usps.com/who-we-are/financials/welcome.htm.*

We are required by law and regulations to disclose operational and financial information well beyond what the law requires of other U.S. government entities and most private-sector companies. Pursuant to Title 39 of the United States Code and PRC regulations, additional disclosures on the organization and finances, including Cost and Revenue Analysis reports; Revenue, Pieces and Weight reports; financial and strategic plans and the *Comprehensive Statement on Postal Operations* are filed with the PRC and may also be found online at *http://about.usps.com/who-we-are/financials/welcome.htm.* Information on the website is not incorporated by reference into this document.

Results of Operations

SUMMARY

The major factors that impact our operating results include overall customer demand, the mix of postal services and profit margins associated with those services, volume of mail and packages processed through our network and our ability to manage our cost structure in line with declining levels of mail volume, growth in more labor-intensive packages volume and increase in delivery points.

Three Months Ended June 30, 2015

Operating revenue was $16.5 billion, essentially unchanged compared to the same period last year. Given the seasonality of our business, we historically experience our lowest quarterly revenue during the third quarter of each year. A price increase impacting certain mail classes went into effect on May 31, 2015, however this was offset by declining mail volumes as First-Class Mail and Standard Mail volumes continued to fall. This price increase is described in more detail in *Operating Revenue and Volume*.

Shipping and Packages, which experienced the most significant change in revenue, represented $3.6 billion of our operating revenue, an increase of $340 million, or 10.6%, compared to the same period last year. Shipping and Packages volume was 1.1 billion pieces for the three months ended June 30, 2015, an increase of 127 million pieces, or 13.4%, compared to the same period last year.

Operating expenses decreased $1.3 billion, or 7.2%, compared to the same period last year, largely the result of changes in interest rates impacting the fair value adjustment of our workers' compensation expense. This decline was partially offset by an increase in compensation and benefits of $337 million attributable to an increase in labor hours resulting from higher Shipping and Packages volume, contractually-obligated salary escalations and higher Federal Employees Retirement System ("FERS") contribution rates mandated by the Office of Personnel Management ("OPM").

Our net loss was $586 million for the three months ended June 30, 2015, compared to a net loss of $2.0 billion for the same period last year, a favorable decrease in net loss of $1.4 billion.

Nine Months Ended June 30, 2015

Operating revenue was $52.2 billion, an increase of $1.0 billion, or 2.0%, compared to the same period last year. This increase in operating revenue was primarily due to an increase in our Shipping and Packages volume. In addition, operating revenue for the nine months ended June 30, 2015, included a full nine months of the January 2014 price increases including the temporary exigent surcharge.

Shipping and Packages revenue was $11.4 billion for the nine months ended June 30, 2015, an increase of $1.1 billion, or 11.0%, compared to the same period last year. Shipping and Packages volume was 3.4 billion pieces for the nine months ended June 30, 2015, an increase of 418 million pieces, or 14.0%, compared to the same period last year, bolstered by the record number of holiday season packages delivered.

Operating expenses decreased $312 million, or 0.6%, compared to the same period last year. The largest factor contributing to this decline was the change in workers' compensation expense, which reduced operating expenses by $1.1 billion as described in more detail below in *Workers' Compensation*. However, this decline in operating expenses was offset by an increase in compensation and benefits of $1.0 billion. The increase in compensation and benefits expense was attributable to an increase in labor hours, contractually-obligated increases in salaries and higher FERS contribution rates offset somewhat by reduced employer-related health care costs.

Our net loss was $2.8 billion for the nine months ended June 30, 2015, compared to a net loss of $4.2 billion for the same period last year, a favorable reduction in our net loss of $1.4 billion.

Non-GAAP Controllable Income/Loss

In the day-to-day operation of our business, we focus our attention on those costs that are within our control, which include work hours, transportation and other costs. We exclude non-controllable expenses from our internal financial analyses to focus on relevant expenses that management can control. These non-controllable expenses, which greatly impact our financial results, consist of the legally-mandated Postal Service Retirement Health Benefit Fund ("PSRHBF") prefunding expense and non-cash items such as the fluctuations in workers' compensation expenses due to changes in interest rates and changes resulting from the actuarial revaluation of the related liability.

We determine our non-GAAP controllable (loss) income by adjusting our net loss for the impact of these non-controllable expenses. Non-GAAP controllable (loss) income for the three and nine months ended June 30, 2015, and 2014, was as follows:

	Three Months Ended		Nine Months Ended	
(in millions)	**2015**	**2014**	**2015**	**2014**
Net loss	**$ (586)**	**$ (1,955)**	**$ (2,808)**	**$ (4,181)**
Impact of:				
Interest rate changes related to workers' compensation liability	(950)	379	268	379
Other non-cash workers' compensation (benefit) expense	(86)	161	(494)	532
PSRHBF prefunding expense	1,425	1,425	4,275	4,275
Non-GAAP controllable (loss) income	**$ (197)**	**$ 10**	**$ 1,241**	**$ 1,005**

Although our operating revenue was essentially unchanged compared to the same period last year, we reported a non-GAAP controllable loss for the three months ended June 30, 2015, primarily due to the increased operating expenses described above.

OPERATING REVENUE AND VOLUME

Although revenue and volume are closely linked to the strength of the U.S. economy and changes in how our customers use the mail, we have proactively targeted opportunities to grow our business. We continue to concentrate on our customers' needs and have increased our marketing investment and focused on mail and package innovation. However, we recognize that revenue growth is constrained by laws and regulations restricting the types of products, services and pricing we may offer to our customers and the speed with which we can bring them to market.

To address the impacts of the Great Recession and the long-term trend that technological change and the migration to electronic alternatives have had on our First-Class Mail revenue and volume, which was exacerbated by the Great Recession, we have focused our efforts on providing new services to enhance the value of mail, growing e-commerce and implementing marketing campaigns to grow our Shipping and Packages business. The *Priority: You* campaign, which offers day-specific delivery, improved tracking and text message alerts and up to $50 of free insurance on most Priority Mail packages, is an example of this strategy.

First-Class Mail and Standard Mail continued to provide the majority of our operating revenue for the three and nine months ended June 30, 2015, despite customers' continuing migration toward electronic communication and transactional alternatives. For the three months ended June 30, 2015, First-Class Mail represented 41.5% of our operating revenue and 41.1% of our volume, while Standard Mail represented 25.0% of our operating revenue and 51.1% of our volume. Shipping and Packages represented 21.6% of our operating revenue, yet represented only 2.9% of our volume. The costs we incur to provide Shipping and Packages services are substantially higher than our costs associated with First-Class Mail. As a result, we must earn approximately $2.50 in Shipping and Package revenue to replace the contribution lost from each $1 of First-Class Mail revenue.

The following table summarizes our operating revenue and volume for the three and nine months ended June 30, 2015, and 2014, by each service:

	Three Months Ended		Nine Months Ended	
(in millions)	**2015**	**2014**	**2015**	**2014**
Operating Revenue:				
First-Class Mail [1]	$ 6,852	$ 7,016	$ 21,559	$ 21,558
Standard Mail [2]	4,138	4,221	13,318	13,061
Shipping and Packages [3]	3,561	3,221	11,372	10,249
International	664	718	2,217	2,311
Periodicals	400	418	1,204	1,220
Other [4]	905	901	2,530	2,776
Total operating revenue	**$ 16,520**	**$ 16,495**	**$ 52,200**	**$ 51,175**
Volume:				
First-Class Mail [1]	15,091	15,491	47,597	48,680
Standard Mail [2]	18,797	19,205	60,667	60,512
Shipping and Packages [3]	1,073	946	3,407	2,989
International	220	208	725	697
Periodicals	1,484	1,535	4,437	4,579
Other [5]	93	111	321	390
Total volume	**36,758**	**37,496**	**117,154**	**117,847**

Note: The totals for certain mail categories for the prior year have been reclassified to conform with classifications used in the current year.
[1] Excludes First-Class Mail Parcels.
[2] Excludes Standard Mail Parcels.
[3] Includes Priority Mail, Standard Post, Parcel Select Mail, Parcel Return Service Mail, Standard Parcels, Package Service Mail, First-Class Mail Parcels, First-Class Package Service and Express Mail.
[4] Includes PO Box Services, Certified Mail, Return Receipts, Insurance, Other Ancillary Fees, Shipping and Mailing Supplies and Other services.
[5] Includes the U.S. Postal Service's mail and free mail provided to certain groups.

In January 2014, we implemented price increases on our Market-Dominant and Competitive products. Market-Dominant prices included a 1.7% increase based on the CPI-U, plus a temporary 4.3% exigent surcharge. Additionally, our prices increased an average of 2.4% for Competitive products.

The PRC originally ruled that we could collect the exigent surcharge on Market-Dominant products until such time as the exigent surcharge produces $3.2 billion in incremental revenue, or $2.8 billion in contribution, a figure that the PRC determined was lost due to the Great Recession's suppression of mail volume. This incremental revenue is in addition to revenue that we would generate solely from the 1.7% price increase based on the CPI-U. We subsequently appealed the PRC's decision to the U.S. Court of Appeals for the District of Columbia ("Court") arguing that the PRC attributed far too little mail volume lost due to the Great Recession and that the exigent surcharge should remain in effect indefinitely.

In June 2015, the Court ruled on the appeal and remanded the case back to the PRC for further review, primarily related to the PRC's methodology for calculating lost volume. Although the Court largely upheld the PRC's analytical framework, it vacated one key aspect of the methodology for calculating mail volume lost due to the Great Recession, and it suggested the PRC reconsider another element of its methodology.

On July 29, 2015, the PRC authorized us to collect an additional $1.4 billion in revenue as an exigent surcharge, bringing the total exigent surcharge to $4.6 billion in revenue. Because of this extension, we now believe the exigent surcharge will remain in place until the middle of 2016. When the exigent surcharge expires, the prices of most Market-Dominant products will decline, which will have an adverse impact on our future operating revenue and liquidity.

On May 7, 2015, the PRC approved price increases and classifications for Standard Mail, Periodicals and Package Services. Previously, the PRC had approved price adjustments for First Class Mail and special services. The average price adjustments on these Market-Dominant services are below the CPI-U price cap of 1.966%. These price increases became effective May 31, 2015. We expect the price increase to generate approximately $900 million in annualized contribution.

First-Class Mail

First-Class Mail volume, our most profitable service category, continues to decline. The most significant factors contributing to this decline in volume are the ongoing effects of the Great Recession and the continued migration toward electronic communication and electronic transaction alternatives, which the Great Recession exacerbated. Despite the decline in volume, revenue increased for the nine months ended June 30, 2015, compared to the same period last year. This increase in revenue was primarily due to the price increases that we implemented in January 2014, which included the temporary exigent surcharge, and to a lesser extent, the May 31, 2015, price increases. Price increases for all services in the First-Class Mail category are generally capped at the rate of inflation because they are classified by law as Market-Dominant.

Standard Mail

Increases and decreases in volume are reflective of the cyclical nature of Standard Mail, the extent to which customers utilize targeted sales advertising campaigns and the strength of the U.S. economy, which each affect demand for standard mail. Volume was favorably impacted in the first quarter of 2015 by the mailings associated with the November 2014 mid-term elections, which alone generated approximately 1.0 billion pieces and $204 million in revenue. Price increases for all services in the Standard Mail category are also generally capped at the rate of inflation because they are classified by law as Market-Dominant. As referenced above, a price increase for Standard Mail went into effect on May 31, 2015, the impact of which was immaterial to our results of operations.

Shipping and Packages

The following table summarizes our operating revenue and volume for Shipping and Packages for the three and nine months ended June 30, 2015, and 2014, by each service:

	Three Months Ended		Nine Months Ended	
(in millions)	2015	2014	2015	2014
Shipping and Packages Revenue				
Priority Mail[1]	$ 1,822	$ 1,682	$ 5,946	$ 5,515
Parcel Select, Parcel Return, Standard Parcels	827	657	2,606	2,058
First-Class Packages[2]	547	506	1,653	1,497
Package Services	174	182	596	598
Priority Mail Express	191	194	571	581
Total Shipping and Packages revenue	**$ 3,561**	**$ 3,221**	**$ 11,372**	**$ 10,249**
Shipping and Packages Volume				
Priority Mail[1]	247	222	787	709
Parcel Select, Parcel Return, Standard Parcels	473	387	1,495	1,208
First-Class Packages[2]	223	209	679	638
Package Services	121	119	418	407
Priority Mail Express	9	9	28	27
Total Shipping and Packages volume	**1,073**	**946**	**3,407**	**2,989**

Note: The totals for certain mail categories for the prior year have been reclassified to conform with classifications used in the current year.

[1] Includes Standard Post which is a retail-only product classified as Market-Dominant. Standard Post is priced identically to Priority Mail for Zones 1-4 and is functionally equivalent to Priority for those Zones.

[2] Includes First-Class Mail Parcels and First-Class Package Services.

Shipping and Packages revenue continued to show solid volume growth as a result of our successful efforts to compete in ground shipping services and the "last mile" e-commerce fulfillment markets, which include Sunday delivery growth. Volume also experienced strong end-to-end growth as we responded to customers' increased usage of online shopping, which provided a surge in package volume with a record number of packages delivered during the fiscal year 2015 holiday season. To accommodate this surge in volume and minimize service disruptions during the holiday season and beyond, we provided Sunday package delivery service in limited U.S. markets.

Priority Mail

Priority Mail revenue increased by $140 million, or 8.3%, during the three months ended June 30, 2015, compared to the same period last year. Similarly for the nine months ended June 30, 2015, Priority Mail revenue increased by $431 million, or 7.8%, compared to the same period last year. Increases for both periods are the result of growth in e-commerce and the success of our sales and marketing initiatives, most notably the *Priority: You* campaign.

Parcel Services

Parcel Services, which includes Parcel Select, Parcel Return and Standard Parcels, reported a revenue increase of $170 million, or 25.9%, for the three months ended June 30, 2015, compared to the same period last year. Parcel Services revenue increased $548 million, or 26.6%, for the nine months ended June 30, 2015, compared to the same period last year. The growth over these periods is driven largely by the continuing growth of e-commerce. However, this category represents a relatively lower contribution compared to other services.

First-Class Packages

First-Class Packages includes First-Class Package Service, an under-one-pound commercial package product, and First-Class Parcels, a Market-Dominant under-13-ounce retail package product. First-Class Package Service offers commercial customers that ship primarily lightweight fulfillment parcels the lowest-priced expedited end-to-end package option in the marketplace. Revenue for the three months ended June 30, 2015, increased $41 million, or 8.1%, with a corresponding volume increase of 6.7% compared to the same period last year. Revenue for the nine months ended June 30, 2015, increased $156 million, or 10.4%, with a corresponding volume increase of 6.4% compared to the same period last year. Growth in revenue and volume for the three and nine months ended June 30, 2015, is primarily attributable to growth in e-commerce.

International

A weaker global economy and increasing competition continue to be the primary factors contributing to the decline in International mail revenue. Despite this ongoing decline in revenue, international mail volume increased for both the three and nine months ended June 30, 2015. This is primarily the result of an increase in lower-margin inbound mail, much of that from tracked letter packets and parcels related to trade in international e-commerce, and to a lesser extent, strength in the U.S. dollar compared to other currencies, which generally causes inbound mail volume to increase and outbound mail volume to decrease.

Periodicals

Trends in hard-copy reading behavior and advertising shifts from print to other media have impacted our Periodicals service. Periodicals are not expected to rebound as e-readers and electronic content continue to grow in popularity with the public.

OPERATING EXPENSES

In an effort to align our resources with anticipated types of services and volume, we continue to aggressively manage operating expenditures under management's control.

Our mail processing and distribution network was originally designed to provide overnight delivery service of First-Class Mail within specified delivery areas, and therefore the network has legacy capabilities that are excessive relative to today's mail volume. Consequently, many of our processing and distribution facilities operate at much less than full capacity.

Additionally, we anticipate that migration of hard copy mail will continue to reduce First-Class Mail volume and revenue for the foreseeable future. Although increased Shipping and Package volume has offset some of these declines, we must earn $2.50 in Shipping and Package revenue to replace the contribution lost from each $1 of First-Class Mail revenue because the costs of transporting and delivering packages are significantly higher than letters. Our challenge to contain costs is compounded by the increase in the number of delivery points, which, when combined with the impact of the reduction in hard copy mail volume, has resulted in a drop in the average number of pieces delivered per delivery point per day from 5.5 pieces in 2007 to 3.8 pieces in 2014, a reduction of 30.9%.

Recognizing the issues impacting our business, we began a realignment of our operations in 2013 to further reduce costs and strengthen our finances. These operational realignments included reductions in the number of mail processing operations, realignment of retail office hours to match demand, consolidations of delivery routes and reductions in the number of delivery facilities.

In January 2015, we revised our service standards for First-Class Mail and began a second phase of mail processing realignments, which resulted in consolidations affecting 15 mail processing facilities as of June 30, 2015. In order to further assess operational considerations and to ensure that we continue to provide prompt, reliable and predictable service consistent with our published service standards, we have deferred further consolidations until 2016. We anticipate that the remainder of the consolidations associated with this phase of our realignment plan may impact up to an additional 67 processing facilities. We will not fully realize the projected cost savings of this consolidation effort until we are able to fully implement it as planned.

As discussed in greater detail below in our *Legislative Update* section, Congress is currently considering several bills that have been introduced or amended that include requirements that could significantly impact our realignment plan and service standards. If certain legislation becomes law, we would be required to defer the implementation of our consolidation effort for up to two years and to roll back our service standards to those that were in effect on July 1, 2012. In addition to the immediate implementation costs we would incur to roll back our standards to July 1, 2012 levels, we would be required to forgo the cost savings of approximately $1.5 billion that are enabled by our current service standards and the corresponding operating model. None of the proposed legislation provides any funding to implement the requirements. We are encouraging Congress to remove these requirements from the legislation under consideration.

We also continue to leverage employee attrition, Voluntary Early Retirement ("VER") and utilization of non-career employees to the maximum extent permitted by our labor contracts. In July 2014, we offered a VER to approximately three thousand postmasters who were impacted by reductions in retail hours at certain of our facilities. This offer was accepted by 1,381 postmasters, all of whom have since left the Postal Service.

Compensation and Benefits

Our compensation and benefits expenses, representing over half of our total operating expenses, consist of costs related to our active career and non-career employees. These expenses include compensation expense, retirement expense, health benefits expense and other miscellaneous expenses more fully described below.

The following table presents the compensation and benefits expense for the three and nine months ended June 30, 2015, and 2014:

	Three Months Ended		Nine Months Ended	
(in millions)	**2015**	**2014**	**2015**	**2014**
Compensation	$ 8,781	$ 8,578	$ 27,122	$ 26,508
Retirement	1,552	1,426	4,675	4,309
Health benefits	1,188	1,191	3,574	3,605
Other	88	77	246	245
Total compensation and benefits	**$ 11,609**	**$ 11,272**	**$ 35,617**	**$ 34,667**

Compensation Expense

Compensation expense increased $203 million, or 2.4%, for the three months ended June 30, 2015, compared to the same period last year. These increases were primarily attributable to contractually-obligated salary escalations, increased benefits expenses and additional work hours associated with the growth in the more labor-intensive Shipping and Packages business. Work hours increased by approximately 5 million, or 1.6%, for the quarter, due primarily to an increase in customer service and delivery operations related to higher package volume.

Compensation expense increased $614 million, or 2.3%, for the nine months ended June 30, 2015, compared to the same period last year. This increase was primarily due to salary and benefit increases, as well as an increase of approximately 15 million work hours, or 1.8%, resulting from an increase in package volume and increased Sunday deliveries during the holiday season.

Retirement Expense

The majority of employees participate in one of two U.S. government pension programs based on the starting date of their employment with the government. See *Item 1. Financial Statements, Note 6 - Retirement Plans* for further details. Retirement expense includes all retirement program expenses except for retiree health benefits.

Retirement expense increased $126 million, or 8.8%, for the three months ended June 30, 2015, compared to the same period last year. Retirement expense increased $366 million, or 8.5%, for the nine months ended June 30, 2015, compared to the same period last year. These increases were primarily due to the increase in our employer contribution rate from 11.9% to 13.2% of basic pay for most current employees who participate in the FERS. This contribution increase became effective October 1, 2014, and is expected to increase our annual retirement expense by approximately $500 million. This government-wide increase, determined by the OPM, underscores the need for USPS-specific calculations of our retirement costs, as using the government-wide population of participants result in higher expenses than using only USPS-specific participants.

Health Benefits Expense

Health benefits expense, representing premiums and other expenses paid for active employees, decreased $3 million, or 0.3%, for the three months ended June 30, 2015, compared to the same period last year. Health benefits expense decreased $31 million, or 0.9%, for the nine months ended June 30, 2015, compared to the same period last year. These decreases were primarily due to lower contractual employer healthcare contribution percentages, compared to the same periods of the prior year. Our share of healthcare premiums represented approximately 75% for 2015 and 76% for 2014.

Retiree Health Benefits

We participate in the federal employee health benefit programs. Under PAEA, we are obligated to fully fund the employer's portion of the established health benefits of retirees and our current employees (as discussed in *Item 1. Financial Statements, Note 7 - Health Benefit Plans* and *Note 2 - Liquidity).*

The components of retiree health benefits expense for the three and nine months ended June 30, 2015, and 2014 were as follows:

	Three Months Ended		Nine Months Ended	
(in millions)	**2015**	**2014**	**2015**	**2014**
Employer premium expense	$ 784	$ 756	$ 2,323	$ 2,229
Accrual for prefunding payment to PSRHBF	1,425	1,425	4,275	4,275
Total retiree health benefits expense	**$ 2,209**	**$ 2,181**	**$ 6,598**	**$ 6,504**

Under PAEA, we continue to pay the monthly premiums for our retirees participating in the Federal Employees Health Benefits ("FEHB") Program until September 30, 2016. Retiree health benefits premium costs are primarily impacted by the number of retirees and survivors receiving health benefits, the mix of plans selected by retirees, the premium costs of those plans and the portion of premium costs allocated to the U.S. government for retiree service prior to 1971.

As of June 30, 2015, the number of retirees participating in the plans was approximately 489,000, relatively unchanged from the same date last year. The employer premium expense increased 3.6% for the three months ended June 30, 2015, primarily due to premium increases and a change in the mix of plans. The employer premium expense increased 4.2% for the nine months ended June 30, 2015, similarly due to premium increases and a change in the mix of plans. Both the three and nine months ended June 30, 2015, were also impacted by a change in the mix of plans in which retirees enroll.

The increase in retiree health benefits premium expense is due to the increased employer health benefit premiums for the period. Total retiree health benefits expense increased $28 million and $94 million, or approximately 1.3% and 1.4%, for the three and nine months ended June 30, 2015, respectively, compared to the same periods last year.

These costs are reflected as "*Retiree health benefits*" in the accompanying unaudited Statements of Operations, and consist of payments to the OPM for our share of FEHB retiree premiums currently paid, plus an accrual for the PSRHBF prefunding payment. Because the amounts scheduled to be paid into the PSRHBF are set by legislation, our retiree health expense may represent more than the full normal cost of the benefits earned by our employees.

Workers' Compensation

Our workers' compensation expense reflects the impacts of changes in discount and inflation rates, as well as the actuarial valuation of new workers' compensation cases and revaluation of existing ones. We reimburse the DOL for all workers' compensation benefits paid to or on behalf of our employees, plus an administrative fee. Our workers compensation expense is discussed in greater detail in *Item 1. Financial Statements, Note 8 - Workers' Compensation.*

The impact of discount rate changes on workers' compensation expense for the three months ended June 30, 2015, reduced workers' compensation expense by $1.3 billion compared to the same period last year. The impact of discount rate changes for the nine months ended June 30, 2015, reduced workers' compensation expense by $111 million compared to the same period last year. These changes are the result of economic activity outside of management's control.

The actuarial valuation of new and existing cases decreased workers' compensation expense by $228 million for the three months ended June 30, 2015, compared to the same period last year. The actuarial valuation decreased workers' compensation expense by $976 million for the nine months ended June 30, 2015, compared to the same period last year, and this amount included the $353 million change in accounting estimate that took place during the first quarter of 2015. The decrease in workers' compensation expense is the result of updated cost-of-living adjustment ("COLA") assumptions, which are also largely outside of management's control, and lower compensation claim payments.

Under FECA, workers' compensation claims for many types of injuries cannot be settled through lump-sum payments, and in some instances with regard to those claims, compensation may be paid over many years. Federal law grants COLA adjustments to those claims, and this results in substantially higher costs to us than would likely result if we managed our own claims. Additionally, since we do not manage the FECA program, we have no ability to control the significant administrative costs associated with managing the claims and payments process.

Transportation

The components of transportation expense for the three and nine months ended June 30, 2015, and 2014, were as follows:

	Three Months Ended		Nine Months Ended	
(in millions)	**2015**	**2014**	**2015**	**2014**
Highway	$ 864	$ 854	$ 2,717	$ 2,656
Air	530	515	1,614	1,575
International	180	229	616	711
Other	10	7	30	30
Total transportation expense*	**$ 1,584**	**$ 1,605**	**$ 4,977**	**$ 4,972**

* Transportation expense includes only the costs we incur to transport mail and other products between our facilities. Other delivery costs, i.e., the "last mile" are included in "*Other operating expenses*."

For the three months ended June 30, 2015, air transportation costs increased $15 million, or 2.9%, due to the increase in volume of mail classes that utilize our air network. International transportation costs decreased $49 million, or 21.4%, primarily due to the decrease in international outbound mail volume.

For the nine months ended June 30, 2015, highway transportation costs increased, primarily due to a 5.5% increase in mileage rates associated with some of our contracted routes. Air transportation increased, primarily due to the increase in package volume compared to the same period last year, resulting from our efforts to provide new services, grow e-commerce and implement marketing campaigns that have helped us grow our Shipping and Packages business. Increases in highway and air transportation expenses were partially offset by a 20.7% reduction in average diesel fuel prices compared to the same period last year. International transportation costs decreased by $95 million, or 13.4%, primarily due to the decrease in international outbound mail volume.

Other Operating Expenses

The components of other operating expenses for the three and nine months ended June 30, 2015, and 2014, are as follows:

(in millions)	Three Months Ended 2015	Three Months Ended 2014	Nine Months Ended 2015	Nine Months Ended 2014
Supplies and services	$ 684	$ 630	$ 2,011	$ 1,910
Depreciation and amortization	444	461	1,313	1,390
Rent and utilities	384	392	1,212	1,205
Vehicle maintenance service*	263	279	787	831
Information technology and communications	208	200	564	561
Rural carrier equipment maintenance**	120	139	387	412
Miscellaneous other	220	329	640	879
Total other operating expenses	**$ 2,323**	**$ 2,430**	**$ 6,914**	**$ 7,188**

* Includes fuel costs for delivery routes.

** Includes impact of fuel costs for maintenance reimbursement.

While most of our other operating expenses remained relatively flat year over year, we saw reductions in expenses related to our contingent liabilities, which are included in "*Miscellaneous other*" in the table above.

Liquidity and Capital Resources

We held cash and cash equivalents of $7.1 billion and $4.9 billion as of June 30, 2015, and September 30, 2014, respectively. Within one week after June 30, 2015, approximately $1.7 billion of regularly-scheduled payroll was disbursed, reducing our cash and cash equivalents balance. Our average daily cash balance during the nine months ended June 30, 2015, was $6.5 billion, which represents approximately 24 days of operating cash.

CASH FLOW ANALYSIS

Although our cash balances have increased, they remain insufficient to support an organization with approximately $73 billion in annual operating expenses. Our business continues to face challenges due to the ongoing migration of mail to electronic alternatives, and we are legally limited in how we can price our products and streamline our legacy business model. Our operations will require significant capital investment over the next few years to modernize and improve our processing and delivery infrastructure in order to be able to continue to meet our statutory obligation to provide prompt, efficient and reliable postal services to the nation. Furthermore, given our inability to raise cash through the issuance of additional debt, our current level of available liquidity may be insufficient to support our operations in the event of another significant downturn in the U.S. economy.

Operating Activities

Cash provided by operating activities decreased by $59 million, or 1.9%, for the nine months ended June 30, 2015, compared to the same period last year. As more fully described in *Results of Operations*, our operating revenue increased during the nine months ended June 30, 2015, which was offset by an increase in cash used for operating expenses and other less-material factors. Given the volume of our cash activity from operations during the year, the change in cash provided by operating activities was immaterial.

Exigent Surcharge

As described above in *Operating Revenue and Volume*, we have been collecting an exigent surcharge recorded as operating revenue on Market-Dominant products since January 2014, and will continue to do so until such time as we recover $4.6 billion of incremental revenue from the exigent surcharge. When the exigent surcharge expires, which we believe will take place during the middle of 2016, the prices of most Market-Dominant products will decline, which will have an adverse impact on our future operating revenue and liquidity.

May 2015 Price Increase

On May 7, 2015, the PRC approved price increases and classifications for Standard Mail, Periodicals and Package Services. Previously, the PRC had approved price adjustments for First-Class Mail and special services. The average price increases on these Market-Dominant services are below the CPI-U price cap of 1.966%. These price increases became effective May 31, 2015. We expect these price increases to generate $900 million in annualized contribution.

Legacy Business Model

As discussed above in *Operating Expenses*, our legacy network capabilities are excessive relative to our current mail volume, and we anticipate that migration of hard copy mail will continue to reduce First-Class Mail volume and revenue for the foreseeable future. In 2013, we began a realignment of our operations to reduce costs, strengthen our finances and improve liquidity. Additionally, in January 2015, we revised our service standards for First-Class Mail and began to implement a second phase of mail processing realignments, currently deferred until 2016. We also continue to leverage employee attrition, VER and utilization of non-career employees to the maximum extent permitted by our labor contracts.

Investing Activities

In order to conserve cash, we have reduced our capital expenditures by approximately 50% from an annual average of approximately $1.5 billion in years 2009 through 2011 to an annual average of approximately $700 million in years 2012 through 2014. However, we will need to increase our capital expenditures in order to address our aging facilities and vehicles and to upgrade our equipment to remain competitive in the marketplace and to ensure that we will be able to continue to meet our statutory obligation to provide prompt, efficient and reliable postal services to the nation.

Our delivery fleet includes approximately 140,000 vehicles that are at least 20 years old and at or near the end of their useful lives. Repair and maintenance costs for these vehicles have risen significantly in recent years. We have deferred facilities maintenance, other than for health and safety reasons, to save cash. Investments in sorting and handling equipment are needed to fully capitalize on business opportunities in the growing package delivery market, and we must also invest in letter sorting equipment that is at or near the end of its useful life.

We invested $880 million in the purchase of property and equipment in the nine months ended June 30, 2015. This was an increase of $368 million over the same period last year as we used additional cash on hand to fund some of our much needed investment in building improvements, vehicles, equipment and other capital projects.

We currently estimate that cash outlays for capital assets will amount to approximately $1.4 billion in 2015, and as much as an additional $8.0 billion for the period of 2016 through 2020. Although our future projections include these capital cash outlays, future cash flow from operations alone may not generate the cash needed for such necessary capital expenditures.

Financing Activities

Except as described otherwise in this quarterly report, the nature and amounts of our payment obligations under our debt, capital and operating lease agreements, purchase commitments and other liabilities as of June 30, 2015, have not materially changed from those described in our Annual Report.

We have not increased our debt since September 2012 when we reached the maximum borrowing amount allowed under our statutory debt ceiling. Our debt is borrowed from the Federal Financing Bank ("FFB"), a government-owned corporation under the general supervision of the Secretary of the Treasury, and consists of fixed-rate notes and two revolving credit facilities with various maturities with an aggregate principal balance of $15.0 billion as of June 30, 2015, and September 30, 2014.

The two revolving credit facilities have interest rates determined by the U.S. Department of Treasury each business day and enable us to draw up to $4.0 billion in total. As of June 30, 2015, and September 30, 2014, these facilities were fully drawn, had maturity dates of April 27, 2015, and are included in the current portion of debt. These facilities were renewed upon their expiration and now mature on April 19, 2016.

LIQUIDITY OUTLOOK

With the anticipated continued migration to electronic communication and transactional alternatives, we continue to pursue legislation to reform our obsolete business model and streamline our burdensome regulatory structure. Such changes might include a reduced delivery schedule and the adoption of postal-specific economic and demographic assumptions for calculating the FERS normal cost and fund surplus (or liability).

Additionally, reform is needed to establish a set of healthcare plans within the FEHB that would fully integrate with Medicare for current and future retirees. Such reform would eliminate any necessity for the PSRHBF prefunding requirement by virtually eliminating the unfunded liability previously noted. Although we continue to inform the Administration, Congress, the PRC and other stakeholders of the immediate and long-term financial challenges we face, there can be no assurances that our requests will result in meaningful reform in the foreseeable future.

Our status as an independent establishment of the executive branch that does not receive tax dollars for our operations presents unique requirements and restrictions, but also potentially mitigates some of the financial risk that would otherwise be associated with a cash shortfall. With annual revenue of approximately $68 billion, generated almost entirely through the sale of postal products and services, a financially-sound Postal Service continues to be vital to American commerce.

In the event that circumstances leave us with insufficient cash, we would be required to implement contingency plans to ensure that mail deliveries continue. These measures may require us to prioritize payments to our employees and suppliers ahead of some payments to U.S. government entities, as has been done in the past. Without structural change to our business model and legislative change, the factors discussed above will continue to negatively impact us resulting in continuing losses and liquidity challenges for the foreseeable future.

Legislative Update

Our legislative update section provides ongoing insights into the legislative and policy processes that may affect us and our operations. In addition to this section, please refer to the Legislative Update contained in our Annual Report.

As referenced above in *Operating Expenses*, Congress is considering several bills that have been introduced or amended that would require us to roll back our service standards to those that were in effect on July 1, 2012. In addition to the immediate implementation costs we would incur to roll back our standards to July 1, 2012 levels, we would be required to forgo the cost savings of approximately $1.5 billion that are enabled by our current service standards and the corresponding operating model. None of the proposed legislation provides any funding to implement the requirements. We are encouraging Congress to remove these requirements from the legislation under consideration.

APPROPRIATIONS

Our 2016 appropriations request to Congress was $188 million, which includes $138 million for revenue forgone debt repayment.

On June 17, 2015, the House Appropriations Committee reported favorably its 2016 Financial Services and General Government appropriations bill, which includes $55 million in appropriated funds for us: $50 million for free mail for the blind and overseas voting and $29 million for revenue forgone debt repayment, less a $24 million reconciliation adjustment for 2013. The bill includes a requirement that we maintain six-day per week mail delivery service, and also includes an amendment, adopted by a vote of 26-23, which would require us to roll back our service standards to those that were in effect on July 1, 2012. The bill is currently pending a vote by the full House.

On July 23, 2015, the Senate Appropriations Committee reported favorably its 2016 Financial Services and General Government bill. As in the House bill, the Senate bill includes $50 million for free mail for the blind and overseas voting and a requirement that we maintain six-day per week mail delivery service. The bill is currently pending a vote by the full Senate.

LEGISLATION

On July 9, 2015, the *Rural Postal Act of 2015* (S. 1742) was introduced in the Senate. The measure proposes to improve postal services provided in rural areas of the United States. Most significantly, the bill would indefinitely restore service standards to those that were in place on July 1, 2012. It would also make the current appropriations rider requiring 6-day mail delivery permanent, and establish moratoria on the closure or consolidation of mail processing facilities for two years, discontinuance of rural Post Offices for one year and reduction in hours at rural Post Offices for two years.

The measure would establish new procedures that must be followed before the discontinuance of any Post Office, and would require the Postal Service to consider certain factors prior to making a determination to reduce the hours of a Post Office. It would also establish an appeals process to the U.S. Postal Service Office of Inspector General ("OIG") regarding any decision to reduce Post Office hours, allowing the community to file a complaint to the OIG within a year if it finds that the reduction in hours has significant negative impact. The measure was referred to the Senate Homeland Security and Governmental Affairs Committee for consideration.

BOARD OF GOVERNORS NOMINATION
On June 15, 2015, the Senate Homeland Security and Governmental Affairs Committee voted to advance the nomination of David S. Shapira to serve as a Governor for a term to expire on December 8, 2019. Mr. Shapira joins the four other Board nominees -- Mickey Barnett, D. Michael Bennett, Stephen Crawford, and James Miller III -- awaiting confirmation by the full Senate.

Legal Matters and Contingent Liabilities

When we determine that we have incurred a probable liability and can reasonably estimate the amount of the loss, we accrue an estimated loss contingency in our financial statements. Assessing contingencies is highly subjective and requires judgments about future events. We regularly review loss contingencies to determine the adequacy of our accruals and related disclosures. The amount of the actual loss may differ significantly from our estimates. The estimate of our liability for material claims was $927 million and $934 million as of June 30, 2015, and September 30, 2014, respectively, based upon our evaluation of new and existing claims.

Cyber Intrusion Incident

As we disclosed in our Annual Report, during the fourth quarter of 2014, we learned of a cyber intrusion into some of our information systems. We have been working closely with the U.S. Computer Emergency Readiness Team, the Federal Bureau of Investigation, the OIG, the Postal Inspection Service, Carnegie Mellon's Computer Emergency Response Team and private-sector forensic specialists to investigate the matter and to strengthen the security of our systems against future cyber intrusions. We have incurred a total of approximately $8 million in expenses related to remediation efforts since our original announcement.

Fair Value Measurements

As required by authoritative accounting literature, certain fair value disclosures for the periods ended June 30, 2015, and September 30, 2014, are contained in *Item 1. Financial Statements, Notes to Financial Statements (Unaudited)*. We did not recognize gains as a result of valuation measurements during the three and nine months ended June 30, 2015. All recognized losses have been incorporated into our financial statements as of June 30, 2015. See *Item 1. Financial Statements, Note 9 - Fair Value Measurement.*

Related Party Transactions

As disclosed throughout this report, the Postal Service has significant transactions with other U.S. government entities, which are considered related parties for reporting purposes.

Related-party assets, consisting primarily of receivables and revenue foregone, were $487 million and $510 million as of June 30, 2015, and September 30, 2014, respectively. Related-party liabilities, consisting primarily of post-retirement healthcare obligations, workers' compensation and debt, were $60.3 billion and $56.1 billion as of June 30, 2015, and September 30, 2014, respectively.

Related-party operating revenue from other U.S. government entities was $244 million and $243 million for the three months ended June 30, 2015, and 2014, respectively. Related-party operating revenue was $739 million and $672 million for the nine months ended June 30, 2015, and 2014, respectively. Related-party operating expenses, consisting primarily of benefits, retiree health benefits and workers' compensation, were $4.6 billion and $4.3 billion for the three months ended June 30, 2015, and 2014, respectively. Related party operating expenses were $13.4 billion and $12.9 billion for the nine months ended June 30, 2015, and 2014, respectively.

Related-party interest income, either imputed on revenue forgone or generated on cash and equivalents held with the Federal Reserve Bank of New York or short-term investments in U.S. Treasury instruments, was $6 million for each of the three months ended June 30, 2015 and 2014. Related party interest income was $17 million for each of the nine months ended June 30, 2015 and 2014. Related-party interest expense, payable on debt issued to the FFB, was $46 million and $45 million for the three months ended June 30, 2015, and 2014, respectively. Related-party interest expense was $135 million and $137 million for the nine months ended June 30, 2015, and 2014, respectively.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States ("GAAP") requires management to make significant judgments and estimates to develop certain amounts reflected and disclosed in the financial statements. In many cases, alternative policies or estimation techniques may be used. We maintain a thorough process to review the application of accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements of a large organization. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The accounting policies deemed either the most judgmental or which involve the selection or application of alternative accounting policies, and are material to the interim financial statements, are described in *Significant Accounting Estimates* contained in *Management's Discussion and Analysis of Financial Condition and Results of Operations* of our Annual Report. Our management routinely discusses the development and selection of accounting policies and estimates with the Audit and Finance Committee of our Board.

During the three months ended December 31, 2014, we revised the calculation used to estimate our workers' compensation liability (See *Item 1. Financial Statements, Note 8 - Workers' Compensation*). Other than this revision, we have made no significant changes or updates to our critical accounting policies and estimates since the Annual Report.

Recent Accounting Standards

ASU 2014-09

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2014-09 *Revenue from Contracts with Customers* ("ASU 2014-09"). The new standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. As originally issued, ASU 2014-09 is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption not permitted.

In July 2015, the FASB voted for a one-year deferral of the effective date of the standard to annual reporting periods beginning after December 15, 2017, with an option that would permit reporting entities to adopt the standard as early as the original effective date. The new standard may be adopted either retrospectively or on a modified retrospective basis whereby the new standard would be applied to new contracts and existing contracts with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to beginning retained earnings or net deficiency at the effective date for existing contracts with remaining performance obligations. In addition, the FASB is contemplating making changes to certain elements of the new standard. We are currently evaluating the impact of adopting this standard on our financial statements, which is not known or reasonably estimable at this time.

ASU 2014-15

In August 2014, the FASB issued Accounting Standards Update 2014-15 *Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern* ("ASU 2014-15"). The new standard requires management to perform interim and annual assessments of an entity's ability to continue to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted. We do not believe the adoption of the new standard will have a significant impact on our reported disclosures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business we are exposed to market risks due to fluctuations in interest rates, commodity prices and certain foreign currency exchange rates. Our commodity price risk consists primarily of exposure to changes in prices for diesel fuel, unleaded gasoline and aircraft fuel for transportation of the mail, and fuel for heating facilities. We have foreign currency risk related to the settlement of terminal dues and transit fees with foreign postal administrations for international mail.

We have not used derivative commodity or financial instruments to manage market risk related to commodities, foreign currency exchange or interest rate fluctuations for debt instruments. Additionally, we do not purchase or hold derivative financial instruments for speculative purposes.

Additionally, our debt agreements contain a provision allowing us to prepay our $15.0 billion debt at any time at a price determined by the Secretary of the Treasury, based on prevailing interest rates of comparable U.S. Treasury securities at the time of repayment.

See our Annual Report, *Part II, Item 7A. Quantitative and Qualitative Disclosures about Market Risk*.

ITEM 4. CONTROLS AND PROCEDURES

Management is responsible for the preparation, integrity and fair presentation of the financial statements of the Postal Service.

Disclosure Controls

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in quarterly and annual reports is recorded, processed, summarized and reported within the time frames specified by PAEA, and that this information is accumulated and communicated to our management, including the Postmaster General and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation under the supervision and with the participation of management, including the Postmaster General and Chief Financial Officer, of the effectiveness of the design and operation of disclosure controls and procedures as of June 30, 2015. Based upon, and as of the date of, the evaluation, the Postmaster General and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Internal Controls

There have been no changes in our internal controls over financial reporting during the quarter ended June 30, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings affecting the Postal Service, please refer to the Annual Report, as well as the information under the caption "*Legal Matters and Contingent Liabilities*" within *Item 2 -"Management's Discussion and Analysis of Financial Condition and Results of Operations"* included in this report.

ITEM 1A. RISK FACTORS

We report no material changes in risk factors from those disclosed in Part I, Item 1A of our Annual Report.

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities and Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Postal Accountability and Enhancement Act of 2006, the United States Postal Service has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

United States Postal Service

/s/Megan J. Brennan
Megan J. Brennan
Postmaster General and Chief Executive Officer

Date: August 7, 2015

/s/Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President

Date: August 7, 2015

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Megan J. Brennan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the United States Postal Service (Postal Service);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;
4. The Postal Service's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Postal Service and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the Postal Service's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the Postal Service's internal control over financial reporting that occurred during the Postal Service's most recent fiscal quarter (the Postal Service's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Postal Service's internal control over financial reporting; and
5. The Postal Service's other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the Postal Service's auditors and the audit committee of the Postal Service's Board of Governors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have significant roles in the Postal Service's internal control over financial reporting.

Date: August 7, 2015

/s/Megan J. Brennan
Megan J. Brennan
Postmaster General and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES AND EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph Corbett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of the United States Postal Service (Postal Service);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Postal Service as of, and for, the periods presented in this report;
4. The Postal Service's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Postal Service and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Postal Service, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the Postal Service's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the Postal Service's internal control over financial reporting that occurred during the Postal Service's most recent fiscal quarter (the Postal Service's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Postal Service's internal control over financial reporting; and
5. The Postal Service's other certifying officer and I have disclosed based on our most recent evaluation of internal control over financial reporting, to the Postal Service's auditors and the audit committee of the Postal Service's Board of Governors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Postal Service's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have significant roles in the Postal Service's internal control over financial reporting.

Date: August 7, 2015

/s/Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of the United States Postal Service (“Postal Service”) on Form 10-Q for the period ended June 30, 2015, (the “Report”), I, Megan J. Brennan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

Date: August 7, 2015

/s/Megan J. Brennan

Megan J. Brennan

Postmaster General and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of the United States Postal Service ("Postal Service") on Form 10-Q for the period ended June 30, 2015, (the "Report"), I, Joseph Corbett, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Postal Service.

Date: August 7, 2015

/s/Joseph Corbett
Joseph Corbett
Chief Financial Officer and Executive Vice President